November 18, 2021

Can Fin Homes Limited: Ratings reaffirmed; Reaffirmed and simultaneously withdrawn for Rs. 800-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank facilities – Long term	11,900.00	11,900.00	[ICRA]AA+ (Stable); reaffirmed
Bank facilities – Short term	3,100.00	3,100.00	[ICRA]A1+; reaffirmed
Non-convertible debenture (NCD) programme	3,820.00	3,820.00	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debenture (NCD) programme	800.00	-	[ICRA]AA+ (Stable); reaffirmed and simultaneously withdrawn
Subordinated debt programme	300.00	300.00	[ICRA]AA+ (Stable); reaffirmed
Commercial paper	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Fixed deposits	-	-	MAAA (Stable); Reaffirmed
Total	**24,420.00**	**23,620.00**	

**Instrument details are provided in Annexure-1*

Rationale

The outstanding rating on the Rs. 800-crore non-convertible debenture (NCD) programme of Can Fin Homes Limited (CFHL) has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings. The rated instrument has been fully redeemed and there is no amount outstanding against the same.

The ratings factor in the benefits derived by CFHL's association with Canara Bank (sponsor bank for CFHL; rated **[ICRA]AAA (Stable)** for Basel III Tier II Bonds and **[ICRA]AA+ (Stable)** for Basel III AT-I Bonds) like management support, board-level guidance, shared brand name and healthy financial flexibility. In addition, the ratings continue to factor in the company's established presence in the domestic housing finance market, its experienced management, steady growth in the scale of operations, contained asset quality numbers and healthy profitability metrics. CFHL's focus on the relatively low-risk salaried home loan segment helped it report comfortable asset quality metrics, though with a marginal deterioration. Home loans accounted for around 90% of its portfolio as on September 30, 2021 of which around 73% was accounted for by the salaried and professional borrowers segment.

The company reported gross non-performing assets (GNPAs) of 0.78% and net NPAs (NNPAs) of 0.47% as on September 30, 2021 against 0.91% and 0.61%, respectively, as on March 31, 2021. ICRA also notes that CFHL restructured 2.6% of its portfolio as on September 30, 2021 under the Reserve Bank of India's (RBI) Resolution Framework 1.0 and 2.0. However, ICRA draws comfort from the company's demonstrated ability to manage its asset quality.

CFHL's funding profile remains diversified across debt market instruments (7%), commercial paper (CP; 19%), bank borrowings (47%), National Housing Bank (NHB) refinance (25%) and deposits (2%) as on September 30, 2021. The company's asset-liability management (ALM) mismatch remains a monitorable, given the long-term nature of the asset class with the tenure of home loans ranging from 12-20 years. Further, given that around 19% of its borrowing is through CP with a tenure of up to 1 year, CFHL's ability to roll over/refinance the same in a timely manner is important from a credit perspective. ICRA notes that the risk is partly mitigated by CFHL's policy of maintaining adequate unutilised bank lines as a liquidity buffer and its demonstrated ability to roll over CP funding.

The ratings also factor in CFHL's moderate capitalisation profile despite some improvement in its gearing to 7.3 times as on September 30, 2021 (7.4 times as on March 31, 2021) from 8.7 times as on March 31, 2020, driven by healthy internal accruals. The company's ability to maintain its interest spreads given its target segment, profitability, capitalisation, and asset quality in the face of increasing competition would be a monitorable.

The Stable outlook on the ratings reflects ICRA's opinion that the company will continue to benefit from the experience of its management team along with the Stable outlook on the ratings of Canara Bank.

Key rating drivers and their description

Credit strengths

Strong parentage with Canara Bank holding 30% equity stake – CFHL enjoys management support and board-level guidance as it is an associate of Canara Bank, which held a 30% stake in the company as on September 30, 2021. The company's board of directors comprised eight members as on September 30, 2021, including two nominee directors from Canara Bank. ICRA takes comfort from Canara Bank's sizeable stake in CFHL. However, ICRA notes that the company's dependence on Canara Bank for its funding requirements has reduced over the years. Nevertheless, the shared brand name helps CFHL secure funds at competitive rates.

Focus on low-risk salaried home loan segment – CFHL is present in the relatively lower-budget housing loan segment with ~90% of its loan book towards housing loans and the remaining ~10% for non-housing loans (including top-up loans, staff loans, loan against property, builder loans, etc.) as on September 30, 2021. Around 73% of the housing loans pertained to borrowers under the salaried and professional borrower segment as on September 30, 2021. ICRA takes comfort from the company's borrower profile and its presence in the relatively low-risk segment with a reasonable loan-to-value (LTV) ratio of less than 60% on average. Going forward, the company's portfolio mix is expected to remain skewed towards housing loans, which provides comfort.

Comfortable asset quality maintained, though higher restructuring seen in Q2 FY2022 – CFHL's asset quality indicators remain healthy, though they deteriorated marginally due to the Covid-19 pandemic. It reported GNPAs of 0.78% and NNPAs of 0.47% as on September 30, 2021 (0.91% and 0.61%, respectively, as on March 31, 2021) against 0.76% and 0.54%, respectively, as on March 31, 2020. CFHL increased the provision coverage ratio (PCR) on its GNPA to ~40% in September 2021 from ~33% in March 2021 (~29% in March 2020). Despite increasing, ICRA notes that the overall NPA levels remain comfortable and are under control. ICRA also notes that the company has restructured 2.6% of its portfolio under the RBI's resolution framework. The company's trend of delinquencies and the performance of its restructured book will remain monitorable.

Good operating efficiency and low funding costs support profitability – CFHL's profitability has remained healthy with a return on managed assets (RoMA) of 2.2% and a return on net worth (RoNW) of 17.1% in H1 FY2022 against 2.1% and 19.2%, respectively, in FY2021. The profitability is supported by the company's good operating efficiency, stable yields, low borrowing rates and credit costs. CFHL reported a net profit of Rs. 232 crore in H1 FY2022 against a net profit of Rs. 456 crore in FY2021. In Q2 FY2022, CFHL also wrote back a provision, which helped it to marginally improve the profitability as the credit cost with respect to average managed assets (AMA) was 0.0% in H1 FY2022 against 0.3% in FY2021.

Credit challenges

Moderate leverage levels – Despite an improvement supported by internal capital accretion, the company's gearing was high at 7.3 times and the capital adequacy was moderate at 25.2% as on September 30, 2021 against 7.4 times and 25.6%, respectively, as on March 31, 2021. ICRA notes that the gearing has declined from 10.5 times as on March 31, 2018 over the past few years. Further, the risk is somewhat mitigated by CFHL's presence in the low-risk housing loan segment, wherein the average ticket size is low and most of the borrowers are salaried individuals. The current capital profile seems adequate for the current level of operations. However, from a longer term and credit perspective, CFHL's ability to fund the growth in a manner that protects its capitalisation and leverage levels, in line with the management's growth plans, would be crucial.

Relatively high ALM gaps; however, adequate unutilised bank lines result in comfortable liquidity profile – CFHL's asset-liability mismatch remains a monitorable because of the long-term nature of the asset class with the tenure of the home loans ranging between 12 and 20 years while the funding is through relatively shorter-term borrowings. Around 19% of CFHL's borrowings were through CPs with a tenure of up to 1 year as on September 30, 2021. ICRA notes that the risk is partly mitigated by CFHL's policy and demonstrated record of maintaining adequate unutilised bank lines as a liquidity buffer and the rollover of CP funding. Nevertheless, the substantial share of CP in CFHL's funding profile keeps its profile monitorable. CFHL enjoys strong relationships with a diversified lender base and had sizeable undrawn sanctioned lines of around Rs. 1,885 crore as on October 31, 2021 along with some more sanctions in the pipeline, including Rs. 1,300 crore received in November 2021.

Liquidity position: Adequate

Given the relatively higher share of short-term borrowings vis-à-vis the long-term nature of the asset class with the tenure of home loans ranging between 12 and 20 years, the company's asset-liability mismatch remains adverse with cumulative mismatches in the less-than-one-year bucket at -12% of its total assets as on June 30, 2021. However, ICRA draws comfort from CFHL's strong relationships with a diversified lender base and sizeable undrawn sanctioned lines. As on October 31, 2021, the company had undrawn sanctioned lines of Rs. 1,885 crore.

ICRA also notes that CFHL has started to maintain some on-book liquidity in the form of investment in high quality investment assets (HQLA) under the RBI's master direction on Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021. As per the regulation, all deposit-taking housing finance companies (HFCs), irrespective of their asset size, are required to maintain a minimum liquidity coverage ratio (LCR) of 50% in the form of HQLA to survive any acute liquidity stress scenario lasting for 30 days with respect from December 1, 2021 (60% from December 1, 2022). CFHL is expected to comply with this requirement, as has been indicated by the management.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade CFHL's rating if the company is able to demonstrate a steady business scale-up while reporting an improvement in its capitalisation profile and maintaining a good asset quality with GNPA <1%, which is sustained over the long term.

Negative factors – ICRA could revise the outlook to Negative or downgrade the ratings in case of a significant deterioration in CFHL's asset quality or the gearing level. Weakening of its liquidity profile or a deterioration in the credit profile of Canara Bank could also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Credit Rating Methodology for Non-Banking Finance Companies ICRA's Credit Rating Methodology for Housing Finance Companies ICRA's Policy on Withdrawal of Credit Rating
Parent/Group Support	The ratings factor in ICRA's expectations that Canara Bank would be willing to extend support to CFHL, if needed, given its importance as well as the shared brand name.
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company.

About the company

CFHL – promoted by Canara Bank, HDFC Limited and UTI in 1987 – is a deposit-taking HFC registered with NHB. Headquartered in Bengaluru, the company has a presence in 21 states and Union Territories. CFHL reported a loan book of Rs. 23,584 crore as on September 30, 2021. It primarily operates in the affordable housing category. The average ticket size of the loans is less than Rs. 25 lakh with a median tenure of 16 to 20 years and a fixed obligation to income ratio (FOIR) of less than 50%.

CFHL reported a net profit (profit after tax; PAT) of Rs. 232 crore in H1 FY2022 on a loan book of Rs. 23,584 crore as on September 30, 2021 against a PAT of Rs. 456 crore in FY2021 on a loan book of Rs. 22,105 crore as on March 31, 2021. CFHL's RoMA and RoNW stood at 2.2% and 17.1%, respectively, in H1 FY2022 compared to 2.1% and 19.2%, respectively, in FY2021.

Key financial indicators (audited)

Can Fin Homes Limited (standalone)	FY2019	FY2020	FY2021	H1 FY2022^
Accounting as per	Ind-As	Ind-As	Ind-As	Ind-As
Total income (Rs. crore)	1,727	2,030	2,018	919
Profit after tax (Rs. crore)	297	376	456	232
Net worth (Rs. crore)	1,782	2,150	2,610	2,830
Gross AUM (Rs. crore)	18,381	20,708	22,105	23,584
Total managed assets (Rs. crore)	18,829	21,162	22,074	23,798
Return on average managed assets (%)	1.7%	1.9%	2.1%	2.2%
Return on net worth (%)	18.2%	19.1%	19.2%	17.1%
Gross gearing (times)	9.5	8.7	7.4	7.3
Gross NPA / gross advances (%)	0.62%	0.76%	0.91%	0.78%
Net NPA / net advances (%)	0.43%	0.54%	0.61%	0.47%
Solvency (net NPA/net worth)	4.46%	5.20%	5.15%	3.89%
CRAR (%)	16.44%^	22.28%	25.63%	25.22%

Source: *Company, ICRA Research; All ratios and values as per ICRA calculations*

^ H1 FY2022 values and ratios are as per reviewed financials and might change subject to notes to accounts

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Nov-18-2021	Aug-20-2021	Nov-20-2020	Oct-22-2020	Sep-27-2019	May-6-2019	Oct-22-2018
1	Bank lines – LT	Long Term	11,900	7,193.64	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
2	Sub-debt	Long Term	300	100	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
3	NCD	Long Term	3,820	722	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
4	NCD	Long Term	800	-	**[ICRA]AA+ (Stable); withdrawn**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ &	[ICRA]AA+ &	[ICRA]AA+ (Stable)	[ICRA]AAA (Negative)
5	Bank lines – ST	Short Term	3,100^	3,100^	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Commercial papers	Short Term	4,500	4,400*	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	Fixed deposits	Medium Term	-	-	**MAAA (Stable)**	MAAA (Stable)	MAAA (Stable)	MAAA &	MAAA &	MAAA (Stable)	MAAA (Negative)

& - Rating under Watch with Developing Implications; ^ Reflects sanctioned amount
**CP amount outstanding on October 31, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT – Bank facilities	Simple
ST – Bank facilities	Simple
NCD programme	Simple
Subordinated debt programme	Simple
Commercial paper	Very Simple
Fixed deposits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount (Rs. crore)	Rating
NA	Term Loan 1	Sep-21-2017	6.70%	10 years	900.00	[ICRA]AA+ (Stable)
NA	Term Loan 2	Apr-12-2016	6.14%	10 years	377.20	[ICRA]AA+ (Stable)
NA	Term Loan 3	Apr-23-2018	6.30%	10 years	774.97	[ICRA]AA+ (Stable)
NA	Term Loan 4	Dec-31-2018	6.09%	10 years	758.92	[ICRA]AA+ (Stable)
NA	Term Loan 5	Sep-13-2019	6.14% & 6.65%	10 years	825.00	[ICRA]AA+ (Stable)
NA	Term Loan 6	Mar-9-2021	6.65%	10 years	10.00	[ICRA]AA+ (Stable)
NA	Term Loan 7	Jan-20-2018	5.65%	7 years	160.71	[ICRA]AA+ (Stable)
NA	Term Loan 8	May-16-2018	4.46%	7 years	145.71	[ICRA]AA+ (Stable)
NA	Term Loan 9	Mar-22-2019	5.50%	6 Years	305.56	[ICRA]AA+ (Stable)
NA	Term Loan 10	Nov-29-2019	5.5% & 5.25%	6 Years	368.06	[ICRA]AA+ (Stable)
NA	Term Loan 11	Jul-27-2020	5.70% & 5.75%	4 years	801.97	[ICRA]AA+ (Stable)
NA	Term Loan 12	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 13	Feb-8-2018	5.99%	7 years	133.90	[ICRA]AA+ (Stable)
NA	Term Loan 14	Jun-11-2019	5.99%	7 years	178.57	[ICRA]AA+ (Stable)
NA	Term Loan 15	Jul-20-2019	5.99%	7 years	60.70	[ICRA]AA+ (Stable)
NA	Term Loan 16	Dec-27-2019	5.99%	7 years	82.14	[ICRA]AA+ (Stable)
NA	Term Loan 17	Sep-21-2020	5.99%	7 years	232.14	[ICRA]AA+ (Stable)
NA	Term Loan 18	Sep-27-2019	6.65%	10 years	9.61	[ICRA]AA+ (Stable)
NA	Term Loan 19	Sep-19-2020	5.55%	3 years	252.08	[ICRA]AA+ (Stable)
NA	Term Loan 20	Sep-19-2020	5.55%	10 years	682.50	[ICRA]AA+ (Stable)
NA	*Unallocated*				4,706.36	[ICRA]AA+ (Stable)
NA	Canara Bank OD	Dec-23-2020	7.35%	NA	700.00	[ICRA]A1+
NA	Canara Bank OD – Short-term Loan	Dec-23-2020	4.75%	Dec-20-21	800.00	[ICRA]A1+
NA	SBI OD /WCDL	Aug-29-2018	6.90%, 6.20%	NA	1,000.00	[ICRA]A1+
NA	HDFC OD	NA	7.05%	NA	100.00	[ICRA]A1+
NA*	Bank of India – Short-term Loan	Mar-5-2021	6.00%	Mar-4-36[1]	500.00	[ICRA]A1+
INE477A07217	NCD	Nov-15-2016	7.77%	Nov-15-2021	122	[ICRA]AA+ (Stable)
INE477A07241	NCD	May-18-2017	7.89%	May-18-2022	600	[ICRA]AA+ (Stable)
INE477A07258	NCD	Jul-26-2017	7.32%	Oct-26-2020	400	[ICRA]AA+ (Stable); withdrawn
INE477A07266	NCD	Oct-17-2017	7.44%	Jan-17-2021	200	[ICRA]AA+ (Stable); withdrawn
INE477A07274	NCD	Nov-29-2017	7.64%	Feb-28-2021	200	[ICRA]AA+ (Stable); withdrawn
Unallocated	NCD	NA	NA	NA	3,098	[ICRA]AA+ (Stable)

[1] *Payable within 1 year from date of disbursement*

ISIN	Instrument	Date of sanction/ issuance	Coupon Rate	Maturity Date	Amount (Rs. crore)	Rating
INE477A08025	Sub-debt	Mar-12-2014	8.94%	Mar-12-2024	100	[ICRA]AA+ (Stable)
Unallocated	Sub-debt	NA	NA	NA	200	[ICRA]AA+ (Stable)
INE477A14BA3	CP Programme	Nov-19-20	4.07%	364 days	150	[ICRA] A1+
INE477A14BC9	CP Programme	Nov-24-20	4.07%	364 days	200	[ICRA] A1+
INE477A14BC9	CP Programme	Jan-12-21	4.18%	315 days	400	[ICRA] A1+
INE477A14BE5	CP Programme	Feb-8-21	4.99%	365 days	500	[ICRA] A1+
INE477A14BF2	CP Programme	Feb-18-21	4.89%	334 days	500	[ICRA] A1+
INE477A14BH8	CP Programme	Mar-12-21	4.85%	364 days	400	[ICRA] A1+
INE477A14BI6	CP Programme	Mar-16-21	4.85%	365 days	250	[ICRA] A1+
INE477A14BJ4	CP Programme	Apr-6-21	4.15%	244 days	500	[ICRA] A1+
INE477A14BL0	CP Programme	Aug-30-21	4.19%	294 days	350	[ICRA] A1+
INE477A14BM8	CP Programme	Sep-15-21	4.18%	229 days	350	[ICRA] A1+
INE477A14BO4	CP Programme	Oct-1-21	4.77%	361 days	500	[ICRA] A1+
INE477A14BN6	CP Programme	Oct-1-21	4.25%	189 days	300	[ICRA] A1+
Not issued	CP Programme	NA	NA	NA	100	[ICRA] A1+
NA	Fixed Deposit	-	-	-	-	MAAA (Stable)

Amounts for term loans outstanding as on July 31, 2021
Amounts for OD/WCDL/STL are sanctioned amounts as on July 31, 2021
CPs outstanding as on October 31, 2021

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Sachin Sachdeva
+91 124 4545 307
sachin.sachdeva@icraindia.com

Jatin Arora
+91 124 4545 330
jatin.arora@icraindia.com

Jitesh Setia
+91 22 6114 3463
jitesh.setia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

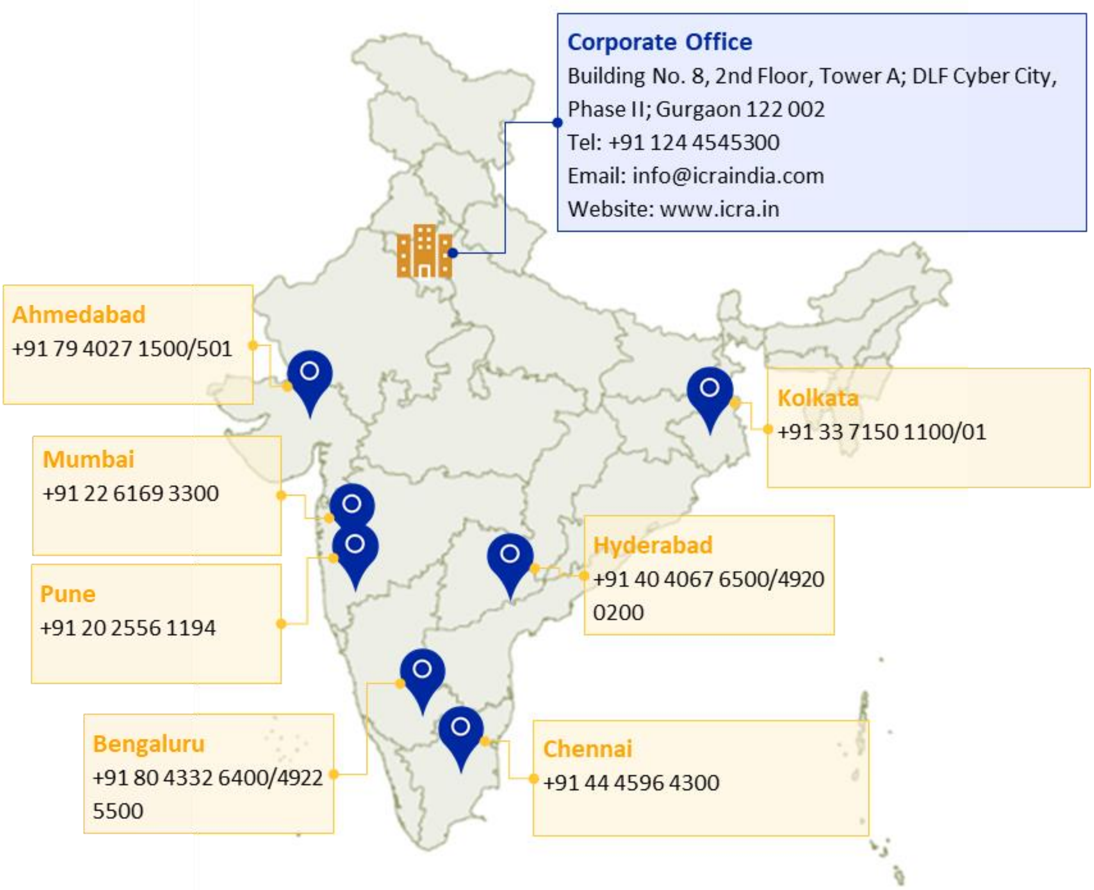
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.